



Department of  
Technology Services



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EMERGENCY IT COST CUTTING:  
TECHNIQUES AND SUCCESS STRATEGIES**

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# Public Sector

## Cost Optimization Opportunities in a Down Economy

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**2 April 2009**

# Economic Uncertainty Has Unearthed Systemic Problems & Change Opportunities

## Problems

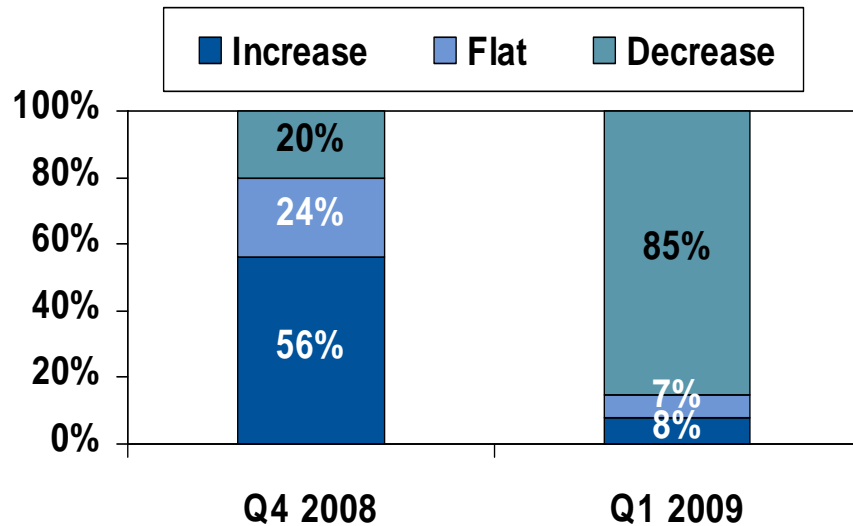
- Too Much Customization & Complexity
- Cost Allocation and Chargeback Was Too Simple
- Couldn't Prioritize the Importance of IT Investments
- No Institutional Knowledge of What Happened Last Time
- No Estimates for Multi-Year Funding Commitments

## Opportunities

- Non-IT Executives Learn More about IT Capabilities
- Urgency Allows For Wholesale Decisions
- IT is More Focused Internally
- Forced Productivity Improvements
- Forces Grass Roots Innovation

# The Full Impact of Economic Uncertainty May Not Be Known in 2009

## 2009 IT Spending Change Estimates



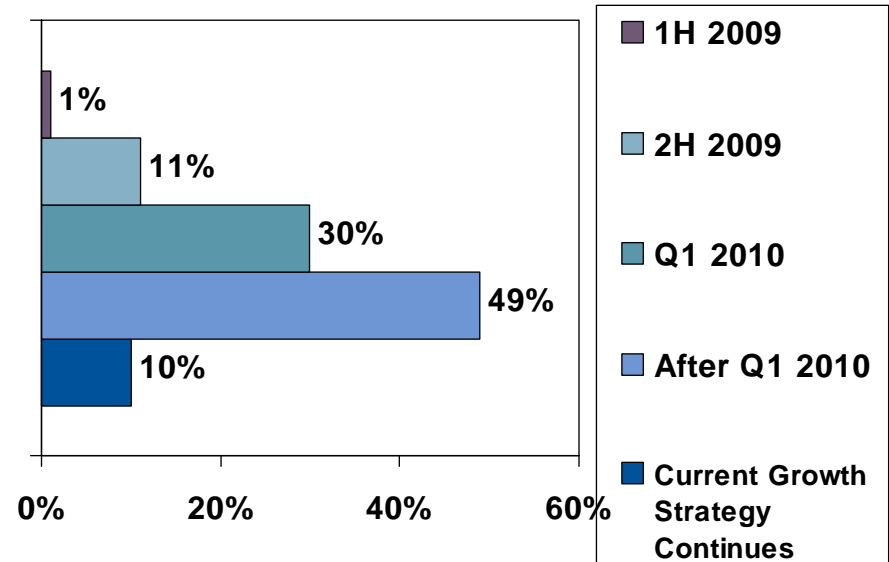
### IT Spend Decrease

37% by >15%

31% by 5-10%

17% by 1-5%

## When IT Organizations Will Focus on Return to Growth Strategies



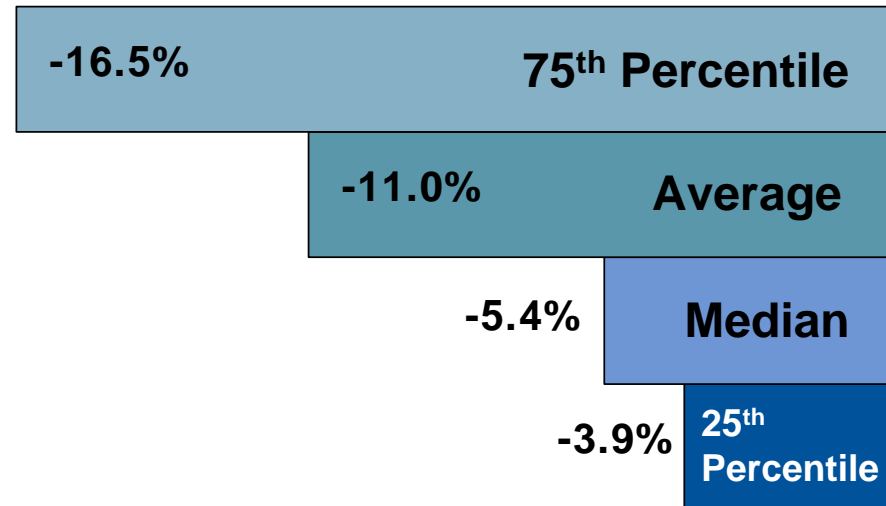
- One Year May Be Over-Optimistic
- Few Estimates Are Trustworthy Until The Bottom is Found



# IT Spending Changes in North America — Possibilities For How Far You Can Go

- Most don't know their IT budget for 2009
- Monthly changes are common – 6 months is now long term
- Initial optimism or denial is now prudent over-reaction
- Many government agencies may face a windfall of funding

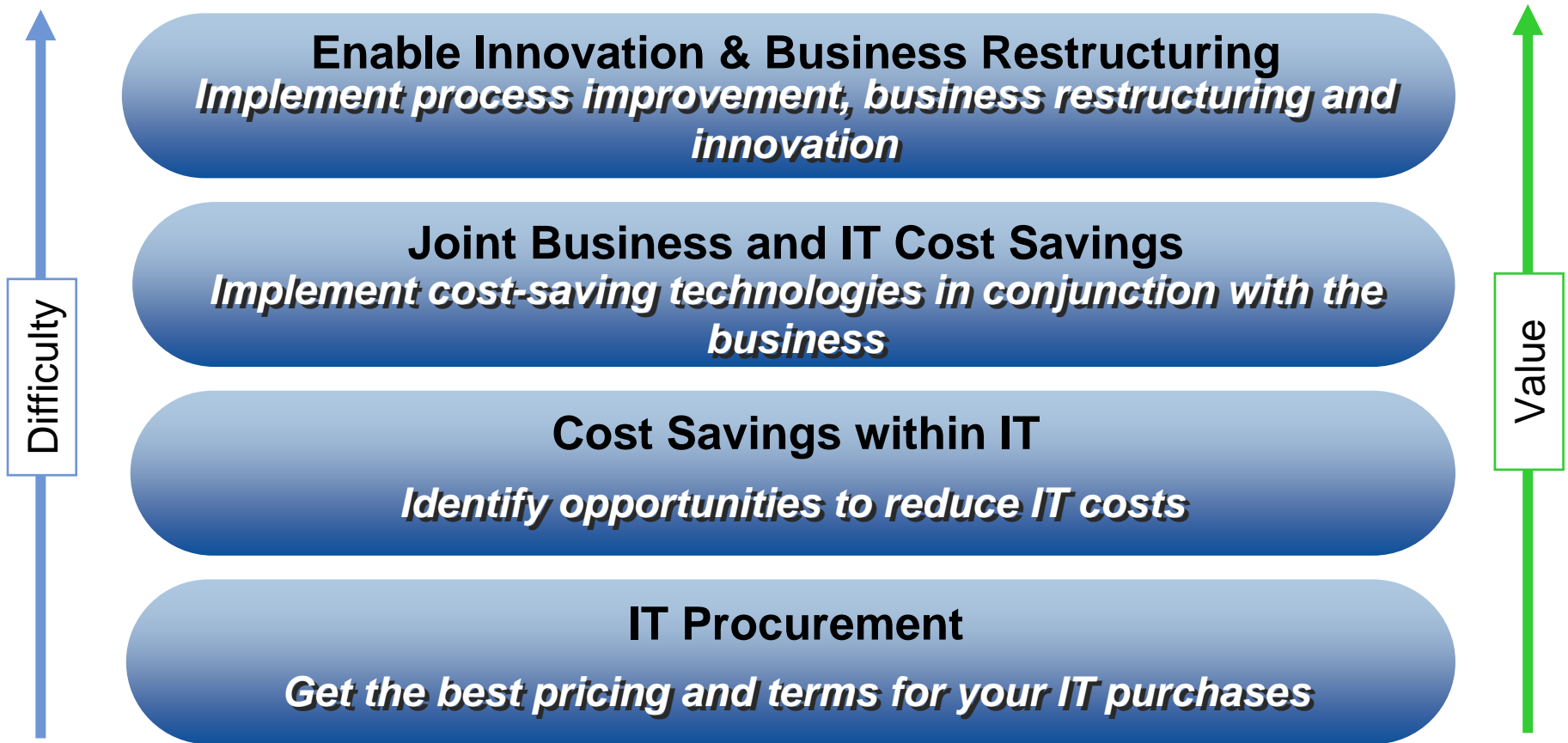
## North America



Source: Gartner IT Key Metrics Database; Information collected throughout 2008



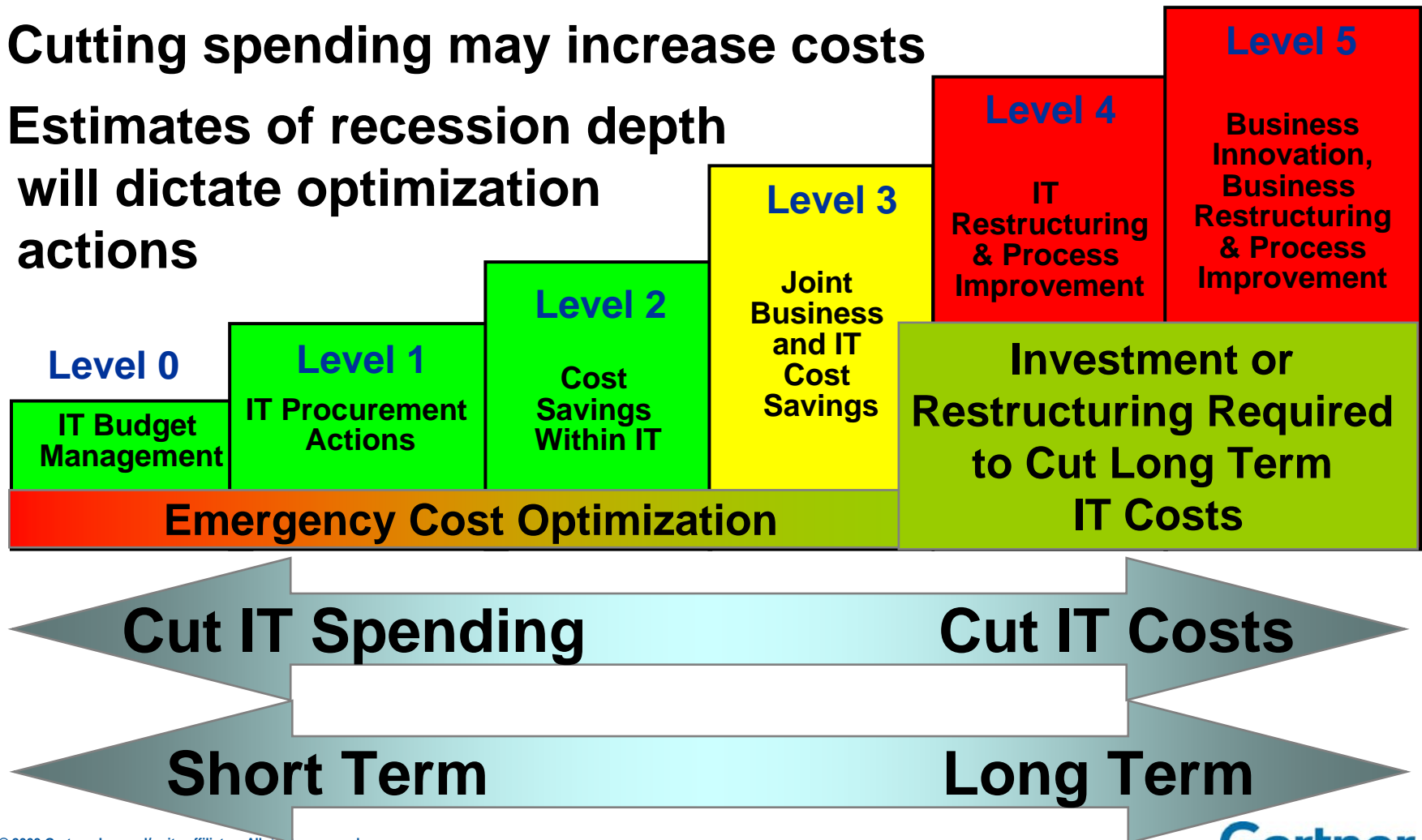
# A Framework for Cost Optimization



**Execution of various types of cost optimization will involve different parts of the organization and varying levels of control by IT alone.**

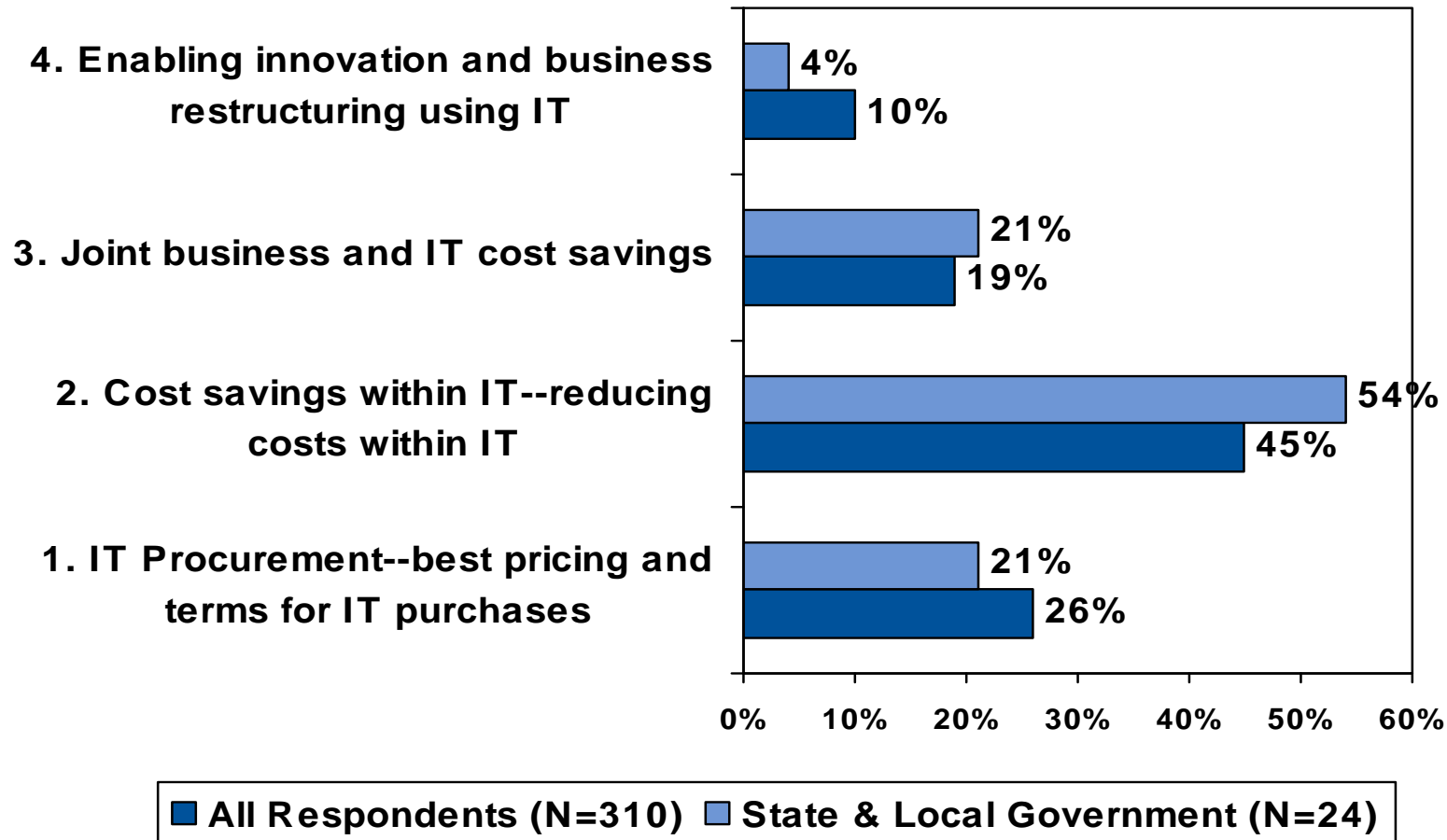
# A Maturity Model for Cost Optimization – It's Not as Linear as One Would Think

- Enhanced cash flow is the ultimate goal for many
- Cutting spending may increase costs
- Estimates of recession depth will dictate optimization actions



# 2008: IT Cost Optimization Area Making The Biggest Impact on Reducing Business Costs

*Question: Please select the category from where IT has made the biggest impact in reducing business costs during the past year.*

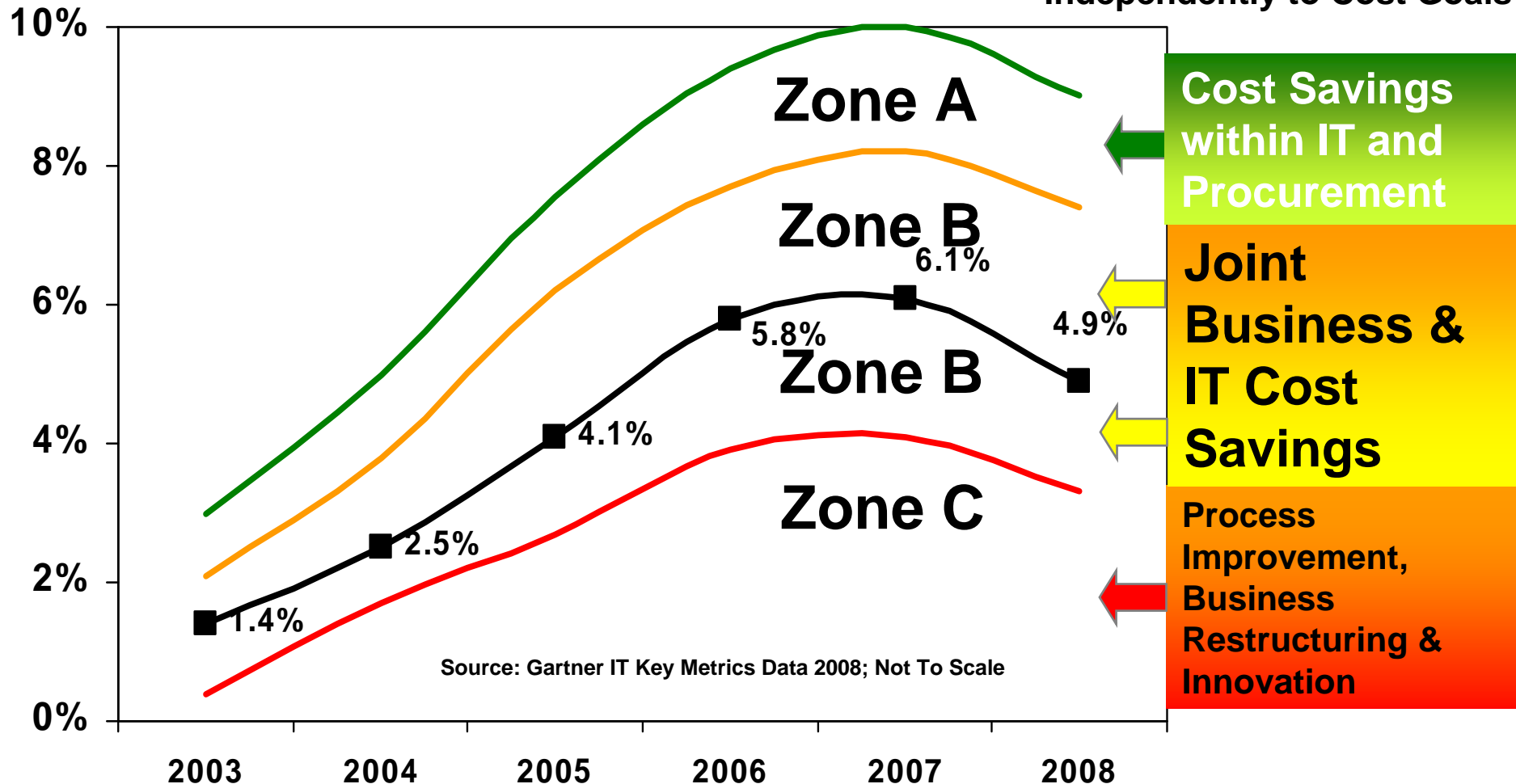




# History of Below-Industry IT Spending Increases or Decreases Limits Cost Optimization Options

Average change in year over year IT spending

Ability of IT to Contribute Independently to Cost Goals



Under-Investment Can Mean Radical Changes are Necessary

# Savings Depends on Time Since Last Optimization Exercise, Implementation or Major Project/Program

## IT Procurement

- Open Source Software: 75% Savings in Maint./License
- Software as a Service (SaaS): 80%
- Enterprise SW Agreement: 20-50% Dropping Maint.
- IT Outsourcing Offshore: 10-40%

## Cost Savings within IT

- Virtualization & Consolidation: 20% Less Workload
- IT Asset Mgt.: 8-10% Per Managed Asset Per Year
- PC Power Mgt: 43% Per Year vs. Non-Best Practice
- Apps Dev. Reuse: 18% Over Five Years

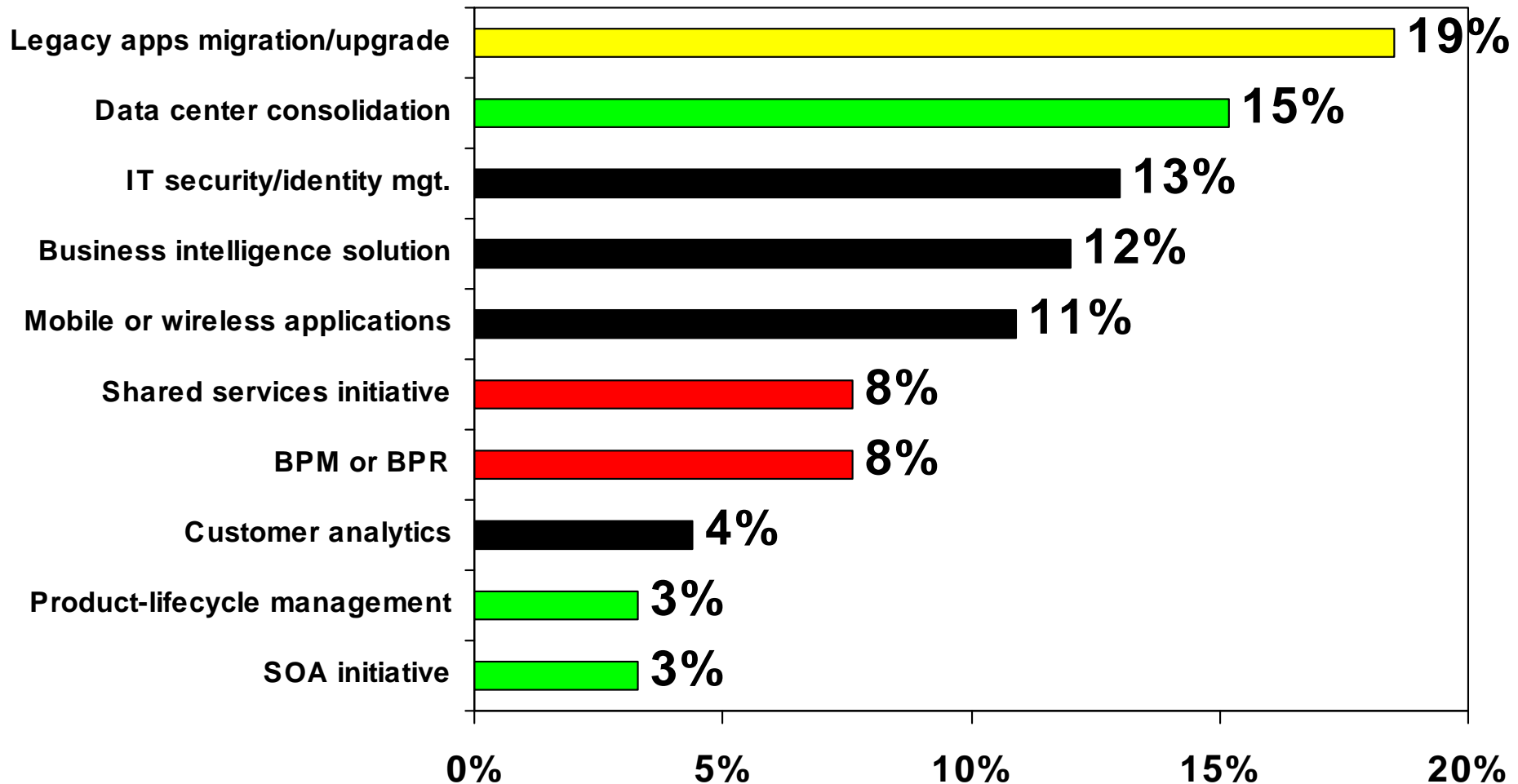
## Joint Business & IT Savings

- Apps Portfolio Reduction: 50% for 20% Savings
- Cancel Projects: Reduce Discretionary Spend by 75%
- Teleworking: 20% Reduction In Net Occupancy Costs
- PMO: 5-20% Productivity Improvement

## Process Improvement, Business Restructuring & Innovation

- Business Process Mgt. Technology: 18% Avoidance
- Shared IT Services: 15-20% is Typical, 40% Maximum
- Territory Mgt. Software: Increase Sales 1-3%
- Online Marketing & Lead Mgt: Increasing Revenue 20%

# Flagship or Most Important IT initiatives — State/Local Govt. 2008



N=92, Information Collected in 2007; One Response Allowed; 4.4% was Other.

# Opportunities by Enterprise Zone Type: Some Will Change Their Zone Type in 2009

## **Zone A Enterprises 15% to 25% Savings Potential**

- **Can Cut Spending & Costs Because of Overspending**
- **Industry Less Impacted by Recession**
- **Prepare for Return to Growth**
- **Evaluating Acquisition Opportunities**
- **Prepare to Punish Weaker Competitors**
- **Leverage Transparency Initiatives For Future Regulation**

## **Zone B Enterprises 12% to 20% Savings Potential**

- **Prioritization of Identified IT Savings Opportunities**
- **Cut the Applications Portfolio While There is a Mandate**
- **Create Strategic Vendor Management Competencies**
- **Relentless Focus on Business Value & Metrics**
- **Run IT Like a Business: IT Services, Chargeback**
- **Revisit Business Cases for Investment**

## **Zone C Enterprises 7% to 14% Savings Potential**

- **Lower Service Levels**
- **Allow Decentralization — Recentralize Later**
- **Industry & Vendor Standards: ITIL, CoBiT, CMMI**
- **IT Outsourcing: SaaS & Managed Services**
- **Formalize Legacy Migration Programs**
- **Expect & Prepare For IT & Business Restructuring**



# Efficient IT Cost Optimization Challenges IT Financial Management Capabilities

## Efficiency Targets

Centralization & Consolidation

Legacy Systems

Evaluate Procurement Activity

IT Asset Management

Lower Service Levels

Internal & External Benchmarking

## Actions

- Data Centers, Servers, Network Providers
- Help Desks, Storage, Data, Provisioning

- Modernization & Migration
- SaaS Alternatives
- Business Process Outsourcing

- Lease vs. Buy vs. Outsourcing
- Deferral & Renegotiation – All IT Vendor Categories
- Install Additional Approval Gates to Delay Action

- Extend Useful Life of Assets – From 3 to 4 Years
- Cancel Licenses – Rationalize Multiple Tool Sets
- Focus on End User and Mobile Device Optimization

- Help Desk Change from 7X24 to 5X8
- Availability: 99.100 to 97.500
- Desktop Provisioning: 2 Days to 14 Days

- Define Quantitative Goals for Effective Cost Savings
- A Unifying Principle for Fact-Based Action
- “What If” Analysis for IT Legitimacy

**Many IT Organizations Are Now In the Middle of Significant Efficiency Programs**

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# Effective IT Cost Optimization May Require New or Continued Investments

## Effective Action

## Benefits

IT Vendor or Sourcing  
Management: Refresh

- Enterprise Agreements Limit Vendor Excesses
- Creates Leverage to Encourage Partnership Behavior
- Prepare for Cloud Computing, ADAM, Industrialization

IT Industrialization

- Process Evolution Negates Customization Benefits
- Standards Adoption Drives Commoditization Benefits
- Move From Fixed to Variable or Semi-Variable Costs

IT Performance Management

- Connect IT Value to Business Value
- Portfolio Approach to IT Investment Decisions
- Chargeback: Continuous Discussion About Costs

IT Value Management

- Forced Harvesting of Value & Optimization Promises
- Instills Discipline & Rigor to Previous Decisions
- Better IT Value Communication

Applications Portfolio  
Management

- Focus on the Root Cause of IT Expenses
- Cosmetic Differences in Apps Ripe for Rationalization
- IT Alignment from Business Discussions

Green IT

- Significant Overlap w/Traditional Optimization Goals
- Focus on Electricity Costs and General Frugality
- Improves Business Case for Optimization

**Long Term IT Planning to Deliver  
Business Value & Make Better Decisions**

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# Well Managed Consolidation Efforts — Pick Targets Wisely & Focus on a Critical Few

**Hidden Playbook: 15% IT Baseline Reduction – 2/3 Years**

**Due to Economic Uncertainty: Expectations of 20% to 30%**

## **Data Center Consolidation**

- From 85 to 6 Data Centers
- Retired 60% of Apps
- 30% Fewer Servers
- 80% More Processing Power
- 3 Years

## **Shared Services-25% Savings**

- Single Data Center
- Replace Servers
- Standardize PC
- Call Center Consolidation
- Standardize Finance Apps

## **Strategic Vendor Mgt: 29% Savings**

- 32% Support Staff Cost
- 51% Service Contract Cost
- 27% Management Software Cost
- 31% External Services Cost

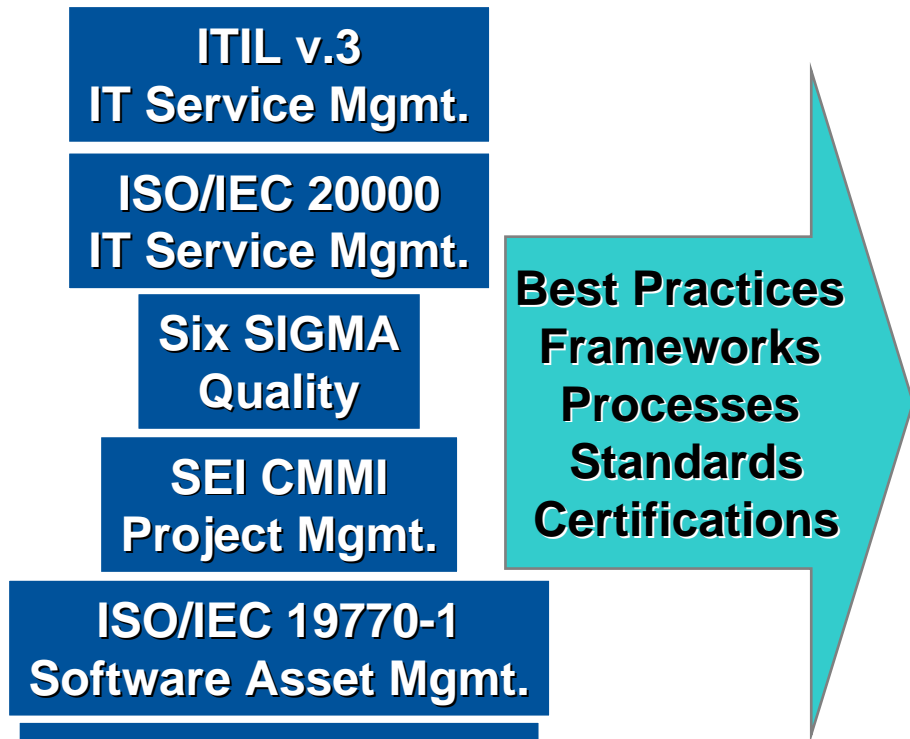
## **Data Center & Network Infrastructure Consolidation – 33% ROI Exceeded Expectations — 9 Months**

- Server Maintenance: 28% Higher
- Network Equipment Maint: 60% Higher
- Operations Support: 58% Higher

# Consolidation Considerations: Of Course, A Solid Business Plan is the Top Priority...

- IT Can't Do it All Alone: Collaborate with Agencies & Departments
- If Consolidation Occurred Within Past 3 Years, May Not Be a Big Savings Target
- Staff: Some Will Be Virtual Rather Than Physical Consolidation
- Applications Drive Data Center Costs; Data Centers Drive Network Costs; All Drive Staff Costs
- Set Goals By Type of Savings
  - Cost Reduction – Reduction on **existing** IT cost base
  - Cost Avoidance – Reduction on **new** IT spending
- Need Quick ROI & Schedule — Or Final Benefits May Not Match Plan
- Focus on IT and Business Areas Where Long Term Demand is Predictable or Increasing
- Spend to Save: Investment Required

# Methodologies, Frameworks & Standards: Significant Savings for a New Paradigm



- **ITIL Overall:** 20-30% IT Operating Cost Savings in 3 Years
- **Capacity Mgt:** 5-10% savings due to server consolidation & contract renegotiation
- **Configuration Mgt:** 10-25% savings in ongoing hardware maintenance & support costs
- **Other Benefits**
  - Easier & faster sourcing due to a common vocabulary
  - More agile in the future
  - More predictable costs





# Benchmarking: Many Will Need a 2nd Round of Cost Cutting – How Much Further Can You Go?

Compared with average IT organizations, top quartile firms achieve *lower costs*

- 77% on Unix Servers
- 50% on Wintel Servers
- 38% per PC
- 35% on S/390 Mainframe

*Now, 15% is the Typical Maximum w/o Benchmarking*

For every €, £, or \$ spent on benchmarking

*Average savings: 20X*

IT spend as a % of revenue:  
2% to 14% by industry

*What is the right number?*

Renegotiation: IT outsourcing price benchmarking

*Client saved \$100m on a \$1.4bn contract*

- **Deeper Cuts in Costs & Spending May Occur**
- **Necessary Leadership Decisions Will Affect Service Levels**

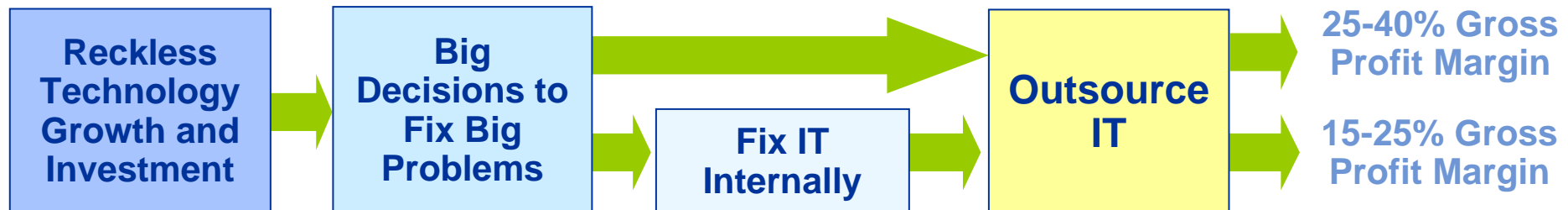




# Expected IT Outsourcing Cost Savings — Use Value Chain Evolution to Optimize

Organization Expected Cost Savings (%)		25-40% Gross Profit Margin
<b>Customized</b> ↕ <b>Commodity</b>	Applications mgt.	23%
	Data center	21
	Desktop	20
	Network LAN WAN	19
	Help desk	19
		↕ 15-25% Gross Profit Margin

## Traditional Take-Over Infrastructure Outsourcing



## Buying Different Things from IT Vendors



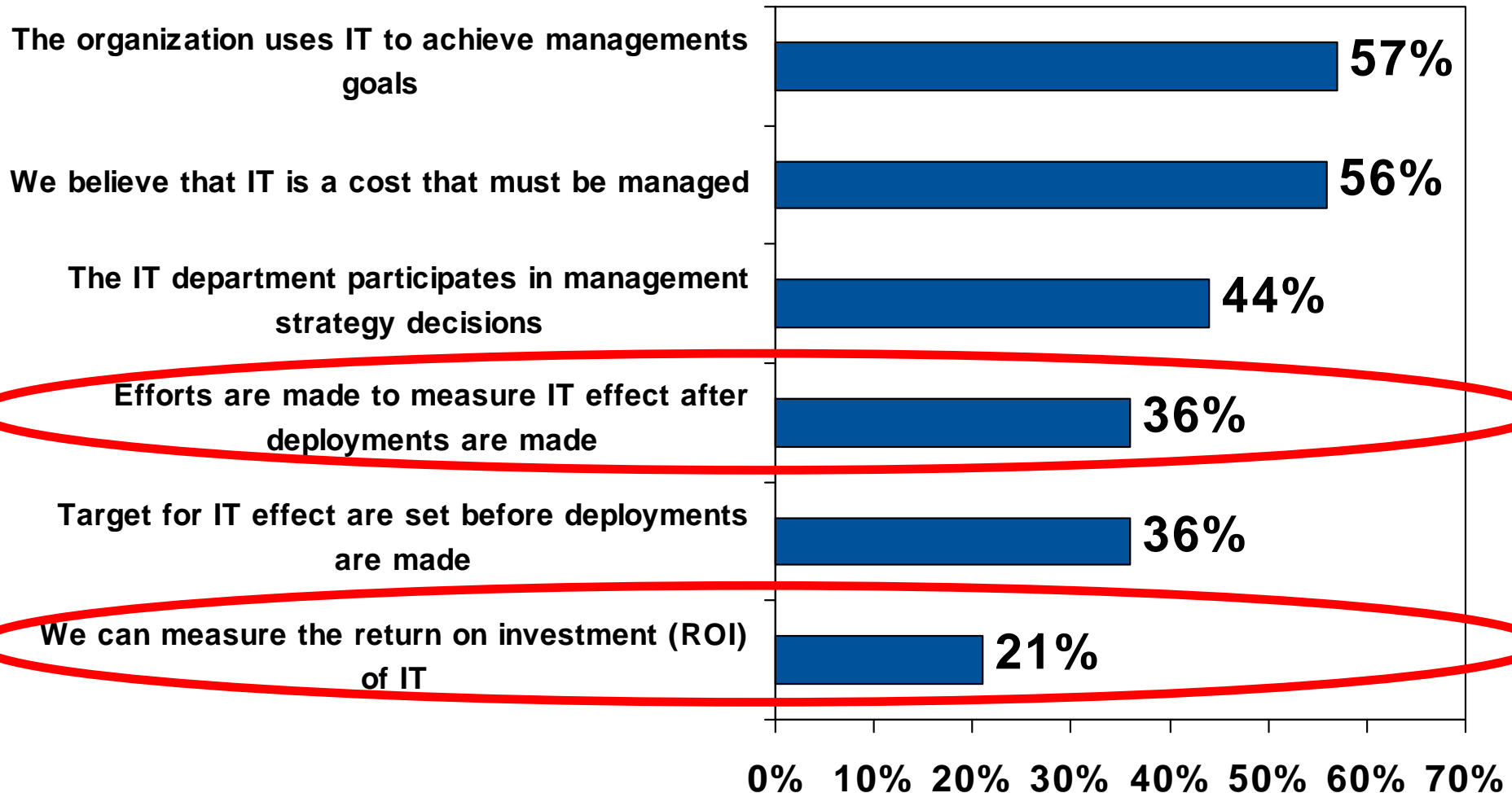
# Prioritization Elements for Cost Optimization: Often Faster and Less Accurate

Financial Impact	Customer Impact	Org. Risk	Technical Risk	Investment Required	OTHER OPTIONS
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- Difficulty & Risk vs. Impact on Cost Reduction
- Management Risk Score (*Not Publicized*)
- Green IT Alignment with Long Term Optimization
- Maximum Current Year Savings vs. Maximum Year-2 Savings
- Commodity Savings vs. Customized Savings
- Capital-Labor Substitution Index
- Sensitivity Analysis (High Medium Low Savings Certainty)

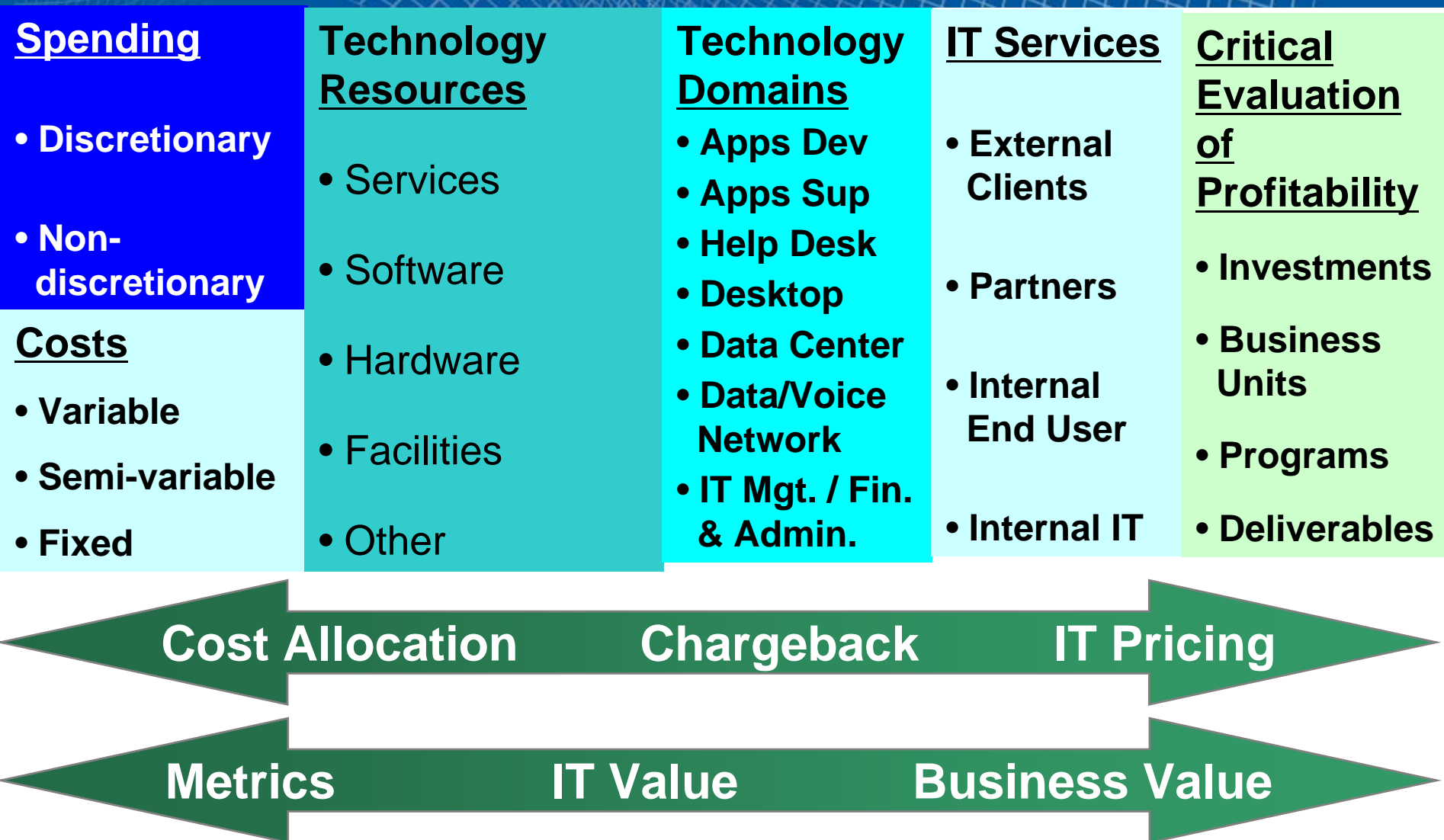
**Selection of Too Many Elements or Too Democratic Weighting Dilutes The Value of Any One Element**

# IT Planning and Operations Truths — State/Local Govt. 2008



N=102, Information Collected in 2007

# Final Cost Optimization Iterations Will Cut Unprofitable Deliverables, Programs, Business Units & Investments





# Recommendations for State & Local Government IT Leaders

- The world has changed: Challenge underlying assumptions
  - Develop an understanding of “good enough”: commodity IT or differentiation using IT
  - Determine leverage benefits of IT: Focus more on fixed or variable IT cost structure?
  - Use current cost optimization prioritization schemes for new investment business cases
- Set expectations for lower IT service levels
    - When you have less funding, there isn't much left to do and strategic decision will be made
    - Ask for help from internal and external clients: Ask everyone to pitch in
  - Determine what IT management capabilities and disciplines are missing now that are needed for cost optimization
  - Determine how much you can cut: Better benchmarking to make more informed decisions